

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----101585 191514Z /42
R 181749Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7434

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 13850

EXDIS (MESSAGE DOWNGRADED FROM NODIS PER MR. PFOTENHAUER, S/S-O)

PASS S/P GARTEN AND EB/IFD WINDER

E.O. 11652: GDS
TAGS: EGEN
SUBJECT: COMMENTS ON VERY ROUGH DRAFT

1. WHAT FOLLOWS IS MEANT AS CONSTRUCTIVE CRITICISM TO WHAT IS A VERY GOOD EFFORT. I START WITH THE PREMISE THAT THE WORLD SITUATION IS ONE OF HEIGHTENED CONTENTIOUS CONFLICT BETWEEN SOVEREIGN POWERS, CONFLICT WHICH HAS REACHED A POINT OF BEING DESTRUCTIVE TO U.S. INTERESTS RATHER THAN CONSTRUCTIVE. THE PRESSURES CAUSING THIS CONFLICT WOULD EASE A GREAT DEAL IF THE WORLD ECONOMY WAS IN BETTER SHAPE BUT IT ISN'T AND THIS SITUATION IS NOT GOING TO CHANGE IN THE NEAR FUTURE. WE HAVE FOUND SIMULTANEOUSLY THAT THE PRESENT INTERNATIONAL INSTITUTIONAL STRUCTURES HAVE NOT BEEN EFFECTIVE IN RESOLVING THESE CONFLICTS. WE THEREFORE ARE IN SEARCH OF NEW MEANS TO LOWER THE LEVEL OF STRESS. ONE MAJOR PROBLEM HAS BEEN THAT IN ORDER TO GAIN POWER TO BARGAIN WITH THE DEVELOPED COUNTRIES, THE LESS DEVELOPED COUNTRIES OF THE WORLD HAVE SOLIDIFIED INTO A BLOCK. THE COMPOSITION OF THIS BLOCK IS SO DIVERSE THAT ONCE IT ACCEPTS A POSITION NEGOTIATING A COMPROMISE WITH THE DEVELOPED WORLD BECOMES EXCEEDINGLY DIFFICULT BECAUSE
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ANY MOVEMENT DESTROYS THE CONSENSUS IN THE BLOCK.

2. I SEE RELATED TWO SETS OF ISSUES THAT HEIGHTEN TENSIONS. ONE SET IS COMPOSED OF ISSUES DEALING WITH REAL WORLD INCOME DISTRIBUTION (FINANCE, COMMODITIES, TECHNOLOGY, LAW OF THE SEA). THE SECOND SET OF ISSUES DEAL WITH TENSIONS INTERNAL TO THE LDCS RELATING TO REAL

INCOME AND INCOME DISTRIBUTION. IN THIS GROUP I WOULD PLACE ENERGY COSTS, AGRICULTURAL PROBLEMS AND FOREIGN ASSISTANCE. TWO ISSUES SEEM TO STRADDLE THESE SETS - TRADE AND INVESTMENT. BOTH OF THESE ISSUES GENERATE JOBS AND WEALTH AND THEREBY LINKING THEM TO THE INTERNAL NATIONAL SET OF ISSUES BUT BOTH ARE DEPENDENT UPON THE CONSENT OF THE DEVELOPED WORLD, THEREBY TYING THEM TO THE INTERNATIONAL SET OF ISSUES.

3. IN MY VIEW, THEREFORE, THERE ARE TWO SETS OF MEANS FOR LOWERING TENSIONS AND HOPEFULLY REDUCING INTERNATIONAL CONFLICTS - DEALING WITH THE PROBLEM OF REAL RESOURCE FLOWS BETWEEN DCS AND LDCS AND/OR DEALING WITH THE REAL INCOME AND INCOME DISTRIBUTION IN LDCS BY LOWERING ENERGY COSTS, INCREASING FOOD PRODUCTION AND PROVIDING FOREIGN ASSISTANCE TO FOSTER DEVELOPMENT.

4. A SECOND AREA OF CONFLICT IS RELATED DIRECTLY TO U.S. POLICY INITIATIVES - HUMAN RIGHTS, ARMS TRANSFERS AND NUCLEAR PROLIFERATION. THIS AREA IS ONE OF NATIONAL SOVEREIGNTY INTRUSIONS - US HAS TAKEN THE INITIATIVE TO PLACE A MORAL JUDGEMENT ON THE ACTIONS OF OTHER SOVEREIGN STATES. SOME OF THESE STATES IN TURN SEE THESE EFFORTS AS NOTHING MORE THAN A SOPHISTICATED COVER FOR THE U.S. NOT FULFILLING ITS INTERNATIONAL

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INFO OCT-01 ISO-00 SSO-00 /026 W
-----101601 191517Z /42

R 181749Z AUG 77
FM AMEMBASSY LONDON
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 13850

EXDIS (MESSAGE DOWNGRADED FROM NODIS PER MR. PFOTENHAUER, S/S-O)

ECONOMIC DEVELOPMENT RESPONSIBILITIES.

5. THE DRAFT PAPER AS IT NOW STANDS HAS A CONCEPTUAL PROBLEM BECAUSE THE ISSUE OF HOW TO RELATE TO THE "UPPER TIER" (A WORLD INCOME DISTRIBUTION PROBLEM) IS DIFFERENT FROM AN ANALYSIS OF THE BHN WHICH ADDRESSES THE INTERNAL NATIONAL INCOME DISTRIBUTION PROBLEM. IN MY OPINION THE SEPARATION OF THESE TWO ISSUES NEEDS TO BE MADE FOR A COHERENT POLICY STRATEGY TO EMERGE FROM THE PAPER.

6. THE LAST SECTION ON OPTIONS DOES NOT ELATE TO THE PAPER AS A WHOLE. TRACK III SHOULD PROVIDE SPECIFIC ISSUE STRATEGIES FOR THE NEXT YEAR. THE OPTIONS PRESENTED ONLY REQUEST BROAD GUIDANCE. THIS, IN MY OPINION IS A FAILURE OF TRACK II. AT THE END OF III WE ARE TRYING TO GET THE POLICY DECISIONS THAT SHOULD HAVE BEEN MADE AT THE CONCLUSION OF TRACK II.

7. AS TO COMMENTS ON THE LIST OF SPECIFIC ISSUES (1 - 15), MY IDEAS ARE AS FOLLOWS: ON TRADE, I AGREE WITH YOU WHOLEHEARTEDLY THAT IT IS THE MOST IMPORTANT THING WE CAN DO. HOWEVER, YOU SLIDE OVER THE ECONOMIC INTERDEPENDENCE ISSUE TOO EASILY. WE NEED MORE THAN ADJUSTMENT ASSISTANCE IN THE U.S. WE NEED A COMPREHENSIVE

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ECONOMIC GROWTH STRATEGY THAT WILL AID LABOR, MANAGEMENT AND CAPITAL TO EFFECTIVELY MOVE OUT OF CERTAIN ECONOMIC SECTORS WHERE COMPARATIVE ADVANTAGE FALLS TO UPPER TIER LDCS. FURTHERMORE, WE NEED A DOMESTIC CAPITAL BANK THAT WILL PROVIDE CAPITAL IN COMPETITIVE INDUSTRIES, WHO HAVE DIFFICULTY ACCUMULATING INVESTMENT RESERVES AND NEED CAPITAL BORROWING RATES EQUIVALENT TO THOSE AT WHICH EXIM FINANCES CAPITAL INVESTMENT IN COMPETITIVE INDUSTRIES IN FOREIGN INDUSTRIES.

8. IN FINANCE WE NEED A STRONGER STATEMENT TO TAKE THE DEBT ISSUE INTO A MORE SPECIFIC FORUM LEAVING UNCTAD WITH AS MINOR A ROLE AS POSSIBLE. DEBT IS A MUCH MORE COMPLICATED ISSUE THAN JUST THE PUBLIC DEBT FACED BY THE BIG FOUR DEBTORS YOU MENTIONED. IT CAN BE AN IMPORTANT PART OF ECONOMIC GROWTH, IT CAN BE A RESULT OF BROADER STRUCTURAL IMBALANCES IN THE WORLD ECONOMY OR IT CAN BE A CASE OF EMINENT DEFAULT. ALSO SOME MENTION SHOULD BE MADE OF THE CIEC PROGRESS ON DEBT FEATURES.

9. ON COMMODITIES IT MIGHT BE FAIR TO POINT OUT THAT THERE ARE DIFFICULTIES BECAUSE AGRICULTURAL COMMODITY PRICES ARE DRIVEN MAINLY BY SUPPLY FUNCTIONS WHILE MINERAL COMMODITY PRICES ARE DRIVEN BY DEMAND FUNCTIONS. ALSO, THE ENTIRE CONCEPT OF THE CF RESTS ON AN ASSUMPTION THAT ECONOMICALLY SOUND INDIVIDUAL COMMODITY AGREEMENTS CAN BE NEGOTIATED.

10. ON ENERGY YOU ASSUME TOO MUCH WHEN YOU SAY A U.S. DOMESTIC PROGRAM IS IN PLACE. ON DIRECT INVESTMENT WE MIGHT WANT TO MENTION OPIC AND HOW IT MIGHT BE USED PRODUCTIVELY. ON AGRICULTURE AND GRAIN STORAGE, IT'S AN ISSUE OF WHO PAYS TO HOLD THE STOCKS AND AT WHAT CONFIDENTIAL

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PRICE ARE THEY TRANSFERRED. THE AID SECTION IS GOOD ESPECIALLY THE IDEA THAT AID IS GOING TO BE MARGINAL IN THE DEVELOPMENT PROCESS. PAPER COULD RAISE ISSUE MORE CLEARLY ON BHN APPLICATIONS TO HARD IFI LOANS WHERE COMMERCIAL RATES ARE PAID VERSUS SOFT LOANS. ALSO THAT MAJOR CAPITAL EXPANSIONS AT IFI WILL BE IN HARD LOAN WINDOWS AND BENEFIT THE UPPER TIER, NOT THE POOR. YOU MAY WISH TO ADD SOMETHING IN THIS SECTION ON WHAT CONGRESS IS SEEN AS SUPPORTING OR NOT SUPPORTING.

11. I HOPE THIS IS HELPFUL. I CUT JOE INTO THE CABLE SINCE HE IS ACTING IFD. I WANTED HIM TO KNOW MY VIEWS SO WHEN THE FINAL VERSION OF THIS DRAFT COMES OUT HE HAS AN IDEA OF WHERE I AM. THANKS.

STREATOR

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Message Attributes

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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENT DRAFT, PERSONAL OPINION, FOREIGN RELATIONS, TRADE PROMOTION
Control Number: n/a
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Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: n/a
Expiration:
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Litigation History:
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Original Handling Restrictions: EXDIS
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Page Count: 4
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Previous Handling Restrictions: EXDIS
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Retention: 0
Review Action: RELEASED, APPROVED
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1563479
Secure: OPEN
Status: <DBA CHANGED> GWR 20040430; <DBA REVIEWED> GWR 20040503; <DBA REVIEWED> GWR 20040503
Subject: COMMENTS ON VERY ROUGH DRAFT
TAGS: EGEN
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a80d8b58-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009